

## OPEN MEETING

## M E M O R A N D U M

TO: THE COMMISSION

FROM: Utilities Division

DATE: February 7, 2023

RE: IN THE MATTER OF THE APPLICATION OF EPCOR WATER ARIZONA INC. FOR DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES/DECREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS AGUA FRIA, ANTHEM, MOHAVE, SUN CITY, AND SUN CITY WEST WASTEWATER DISTRICTS AND FOR CONSIDERATION OF CONSOLIDATION AND DE-CONSOLIDATION PROPOSALS. (DOCKET NO. WS-01303A-16-0145)

SUBJECT: ANNUAL TRUE-UP REQUEST FOR WASTEWATER SYSTEM IMPROVEMENT BENEFITS ELIGIBLE PROJECTS

## INTRODUCTION

Enclosed are the Commission Staff's memorandum and proposed order for Annual True-Up Request for Wastewater System Improvement Benefits Eligible Projects (Docket No. WS-01303A-16-0145). This is only a Staff recommendation to the Commission; it has not yet become an order of the Commission. The Commission may decide to accept, amend, or reject Staff's proposed order.

You may file comments to the recommendation(s) of the proposed order by eFiling at <https://efiling.azcc.gov/> or filing an original and the appropriate number of copies in accordance with the Filing Requirements available at <http://azcc.gov/hearing/docket-control-center-filing-requirements>, with the Commission's Docket Control on or before: **February 17, 2023**.

This matter may be scheduled for Commission deliberation at its Open Meetings scheduled **February 22, 2023, and February 23, 2023**.

If you have any questions about this matter, please contact Luis Carranza of our Staff at (602) 542-0820, or Elijah Abinah, Director, at (602) 542-6935.

## BACKGROUND

On June 28, 2017, the Arizona Corporation Commission (“Commission”) issued Decision No. 76162, which approved EPCOR Water Arizona Inc.’s (“EPCOR” or “Company”) new rates, charges, and fully consolidated five of its wastewater systems and directed the docket remain open for future consideration of a System Improvement Benefits (“SIB”) Mechanism.

On November 6, 2017, EPCOR filed an Application for Commission approval of a SIB Mechanism for its Arizona Wastewater District. On January 15, 2019, the Commission, in Decision No. 77040, approved EPCOR’s request. On April 17, 2019, the Commission approved the SIB Plan of Administration (“POA”). On July 1, 2021, the Company filed the Annual True-Up calculation for SIB eligible projects for 2019 and 2020. On September 29, 2021, the Commission, in Decision No. 78246, approved a SIB Surcharge (net of efficiency credit) of \$0.48 per customer per month.

A SIB mechanism is implemented between rate proceedings to mitigate regulatory lag and facilitate timely recovery of capital investments incurred for SIB-eligible plant depicted in SIB Plant Table I. Per Decision No. 76162, the SIB provides for recovery of the capital costs (return on investment, income taxes, and depreciation expense) associated with improvement projects that have been verified to be completed, net of associated retirements and placed in service per SIB Plant Table II. The allowable costs are related to new plant investments that have not been reflected in rate base for recovery.

The Commission requires that the rate of return, depreciation rates, and gross revenue conversion factor/tax multiplier be the same as those approved in Decision No. 76162. The SIB surcharge includes an “efficiency credit” equal to five percent of the SIB revenue requirement. The amount permitted to be collected annually through each SIB surcharge is capped at five percent of the revenue requirement authorized in Decision No. 76162.

The Company may file up to five SIB surcharge requests between rate case decisions, may make no more than one SIB surcharge filing every 12 months, and must make an annual SIB surcharge filing to true-up its surcharge collections.

At least 30 days prior to a SIB surcharge becoming effective, the Company is required to provide public notice to customers in the form of a bill insert or customer letter. The notice must include: the individual surcharge amount by meter size, the individual efficiency credit by meter size, and a summary of the projects included in the current surcharge filing, including a description of each project and its cost.

Pursuant to the SIB POA, the Company is required to file the following information with each SIB Surcharge request:

- a. SIB Plant Table II with supporting information and documentation showing the SIB eligible projects completed for which the Company seeks cost recovery,

- b. A summary of Commission approved SIB-eligible projects contemplated for the next 12-month SIB Surcharge period from SIB Plant Table I,
- c. SIB Schedule A, showing a calculation of the SIB Revenue Requirement and SIB Revenue Requirement Efficiency Credit, SIB Authorized Revenue, Gross SIB Surcharge, SIB Surcharge Efficiency Credit, and the SIB Surcharge,
- d. SIB Schedule B, showing the overall SIB True-Up Adjustment calculation for the prior 12-month SIB Surcharge period,
- e. SIB Schedule C, showing the effect of the SIB Surcharge on a typical residential customer's bill,
- f. SIB Schedule D, showing an analysis of the impact of the completed SIB eligible plant on the fair value rate base, revenue, and fair value rate of return,
- g. In addition, the SIB POA requires that the Company also file certain financial information.

## EPCOR'S CURRENT REQUEST

EPCOR seeks a SIB Surcharge to recover a portion of the capital costs (i.e. pre-tax return on investment and depreciation expense, net of associated retirements) incurred for SIB eligible projects in the Sun City and Sun City West areas of its Arizona Wastewater District. The SIB revenue requirement and surcharge calculations are as follows:

<u>SIB Surcharge Revenue Requirement</u>	
Total SIB Revenue Requirement	\$414,674
SIB Efficiency Credit	(20,734)
SIB True-Up Adjustment	(99,816)
Net SIB Revenue Requirement	\$294,124

The Company reports \$4,642,016 of SIB eligible projects in this Application. As a result, EPCOR proposes a net SIB Revenue Requirement (after factoring in the five percent efficiency credit) of \$294,124, which equates to a SIB Surcharge of \$0.31 per customer per month (See Schedule A, page 1 of 2). The Company states that the fifth and final year (2021) Project No. 7E-4GM Gravity Mains, Sun City West, was not reflected in this proposal because construction has been postponed to 2024.

The Company's proposal would change the average monthly bill for a residential wastewater customer as follows:

Average Monthly Bill Impact for Residential Wastewater Customers	
SIB Surcharge	\$0.33

SIB Efficiency Credit	(0.02)
Net SIB Surcharge	0.31
Average Monthly Bill	\$37.33
Percentage Increase	0.83%

## STAFF ANALYSIS AND RECOMMENDATIONS

Commission Utilities Division Staff ("Staff") reviewed the Company's SIB surcharge annual true-up request and documentation that supported the costs of the plant. Staff has determined that the Company proposed surcharge is consistent with its SIB POA approved in Decision No. 77040. Staff finds that the total revenues produced by EPCOR's proposed SIB Surcharge will not result in a return on equity that exceeds the 9.7 percent authorized in Decision No. 76162. Staff recommends the Commission approve the Company's proposed SIB Surcharge of \$0.31 per customer per month.

Staff recommends that the Company file within 30 days of a Decision in this matter, a tariff for the SIB Surcharge consistent with the rates shown in the above table.

Staff recommends that the Company notify its customers in the form of a bill insert or customer letter, no later than 30 days after the effective date of a Decision in this proceeding.



Elijah O. Abinah  
Director  
Utilities Division

EOA:LAC:elr\MAS

ORIGINATOR: Luis Carranza

THE COMMISSION

February 7, 2023

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On this 7th day of February, 2023, the foregoing document was filed with Docket Control as a Utilities Division Memorandum & Proposed Order, and copies of the foregoing were mailed on behalf of the Utilities Division to the following who have not consented to email service. On this date or as soon as possible thereafter, the Commission's eDocket program will automatically email a link to the foregoing to the following who have consented to email service.

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THE COMMISSION

February 7, 2023

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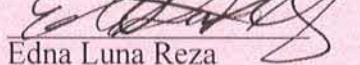
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**BEFORE THE ARIZONA CORPORATION COMMISSION**

JIM O'CONNOR  
Chairman  
LEA MRQUEZ PETERSON  
Commissioner  
ANNA TOVAR  
Commissioner  
KEVIN THOMPSON  
Commissioner  
NICK MYERS  
Commissioner

IN THE MATTER OF THE APPLICATION )  
OF EPCOR WATER ARIZONA INC. FOR )  
DETERMINATION OF THE CURRENT )  
FAIR VALUE OF ITS UTILITY PLANT )  
AND PROPERTY AND FOR )  
INCREASES/DECREASES IN ITS RATES )  
AND CHARGES BASED THEREON FOR )  
UTILITY SERVICE BY ITS AGUA FRIA, )  
ANTHEM, MOHAVE, SUN CITY, AND )  
SUN CITY WEST WASTEWATER )  
DISTRICTS AND FOR CONSIDERATION )  
OF CONSOLIDATION AND DE- )  
CONSOLIDATION PROPOSALS. )

DOCKET NO.  
DECISION NO. \_\_\_\_\_  
ORDER  
  
**ANNUAL TRUE-UP REQUEST FOR  
WASTEWATER SIB ELIGIBLE PRO-  
JECTS**

Open Meeting  
February 22 and 23, 2023  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

**Background**

1. On June 28, 2017, the Arizona Corporation Commission ("Commission") issued Decision No. 76162, which approved EPCOR Water Arizona Inc.'s ("EPCOR" or "Company") new rates, charges, and fully consolidated five of its wastewater systems and directed the docket remain open for future consideration of a System Improvement Benefits ("SIB") Mechanism.
2. On November 6, 2017, EPCOR filed an Application for Commission approval of a SIB Mechanism for its Arizona Wastewater District. On January 15, 2019, the Commission, in Decision No. 77040, approved EPCOR's request. On April 17, 2019, the Commission approved the SIB Plan of Administration ("POA"). On July 1, 2021, the Company filed the Annual True-Up

1 calculation for SIB eligible projects for 2019 and 2020. On September 29, 2021, the Commission,  
2 in Decision No. 78246, approved a SIB Surcharge (net of efficiency credit) of \$0.48 per customer  
3 per month.

4 3. A SIB mechanism is implemented between rate proceedings to mitigate regulatory  
5 lag and facilitate timely recovery of capital investments incurred for SIB-eligible plant depicted in  
6 SIB Plant Table I. Per Decision No. 76162, the SIB provides for recovery of the capital costs (return  
7 on investment, income taxes, and depreciation expense) associated with improvement projects that  
8 have been verified to be completed, net of associated retirements and placed in service per SIB Plant  
9 Table II. The allowable costs are related to new plant investments that have not been reflected in  
10 rate base for recovery.

11 4. The Commission requires that the rate of return, depreciation rates, and gross revenue  
12 conversion factor/tax multiplier be the same as those approved in Decision No. 76162. The SIB  
13 surcharge includes an "efficiency credit" equal to five percent of the SIB revenue requirement. The  
14 amount permitted to be collected annually through each SIB surcharge is capped at five percent of  
15 the revenue requirement authorized in Decision No. 76162.

16 5. The Company may file up to five SIB surcharge requests between rate case decisions,  
17 may make no more than one SIB surcharge filing every 12 months, and must make an annual SIB  
18 surcharge filing to true-up its surcharge collections.

19 6. At least 30 days prior to a SIB surcharge becoming effective, the Company is required  
20 to provide public notice to customers in the form of a bill insert or customer letter. The notice must  
21 include: the individual surcharge amount by meter size, the individual efficiency credit by meter  
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23 of each project and its cost.

24 7. Pursuant to the SIB POA, the Company is required to file the following information  
25 with each SIB Surcharge request:

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27 a. SIB Plant Table II with supporting information and documentation showing  
28 the SIB eligible projects completed for which the Company seeks cost  
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- f. SIB Schedule D, showing an analysis of the impact of the completed SIB eligible plant on the fair value rate base, revenue, and fair value rate of return,
- g. In addition, the SIB POA requires that the Company also file certain financial information.

#### **EPCOR's Current Request**

8. EPCOR seeks a SIB Surcharge to recover a portion of the capital costs (i.e. pre-tax return on investment and depreciation expense, net of associated retirements) incurred for SIB eligible projects in the Sun City and Sun City West areas of its Arizona Wastewater District. The SIB revenue requirement and surcharge calculations are as follows:

<u>SIB Surcharge Revenue Requirement</u>	
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Net SIB Revenue Requirement	\$294,124

9. The Company reports \$4,642,016 of SIB eligible projects in this Application. As a result, EPCOR proposes a net SIB Revenue Requirement (after factoring in the five percent efficiency credit) of \$294,124, which equates to a SIB Surcharge of \$0.31 per customer per month (See Schedule A, page 1 of 2). The Company states that the fifth and final year (2021) Project No. 7E-4GM Gravity Mains, Sun City West, was not reflected in this proposal because construction has been postponed to 2024.

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10. The Company's proposal would change the average monthly bill for a residential wastewater customer as follows:

Average Monthly Bill Impact for Residential Wastewater Customers	
SIB Surcharge	\$0.33
SIB Efficiency Credit	(0.02)
Net SIB Surcharge	0.31
Average Monthly Bill	\$37.33
Percentage Increase	0.83%

### Staff Analysis and Recommendations

11. Commission Utilities Division Staff ("Staff") reviewed the Company's SIB surcharge annual true-up request and documentation that supported the costs of the plant. Staff has determined that the Company proposed surcharge is consistent with its SIB POA approved in Decision No. 77040. Staff finds that the total revenues produced by EPCOR's proposed SIB Surcharge will not result in a return on equity that exceeds the 9.7 percent authorized in Decision No. 76162. Staff recommends the Commission approve the Company's proposed SIB Surcharge of \$0.31 per customer per month.

12. Staff recommends that the Company file within 30 days of a Decision in this matter, a tariff for the SIB Surcharge consistent with the rates shown in the above table.

13. 4 Staff recommends that the Company notify its customers in the form of a bill insert or customer letter, no later than 30 days after the effective date of a Decision in this proceeding.

### CONCLUSIONS OF LAW

1. EPCOR Water Arizona, Inc. is a public service corporation within the meaning of Article XV of the Arizona Constitution and Arizona Revised Statutes §§ 40-250, 40-251, and 40-367.

2. The Commission has jurisdiction over EPCOR Water Arizona, Inc. and the subject matter of the Application.

3. The System Improvement Benefits Surcharge approved herein is for lawful purposes within EPCOR Water Arizona Inc.'s corporate powers and is compatible with the public interest.

ORDER

IT IS THEREFORE ORDERED that EPCOR Water Arizona, Inc.'s Application to true-up its System Improvement Benefits Surcharge is approved as discussed herein.

IT IS FURTHER ORDERED that the System Improvement Benefits Surcharge for EPCOR Water Arizona, Inc. shall be in accordance with the rates depicted in the table, shown in Finding of Fact 10.

IT IS FURTHER ORDERED that EPCOR Water Arizona, Inc. shall docket within 30 days of a Decision in this matter, a tariff for the System Improvement Benefits Surcharge consistent with the rates approved herein.

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1 IT IS FURTHER ORDERED that EPCOR Water Arizona, Inc. shall notify its customers of  
2 the System Improvement Benefits Surcharge approved herein in the form of a bill insert or customer  
3 letter, no later than 30 days of the effective date of a Decision in this proceeding.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5  
6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

7  
8  
9 CHAIRMAN O'CONNOR

COMMISSIONER MARQUEZ PETERSON

10  
11 COMMISSIONER TOVAR

COMMISSIONER THOMPSON

COMMISSIONER MYERS

12  
13 IN WITNESS WHEREOF, I, KIM BATTISTA, Interim  
14 Executive Director of the Arizona Corporation Commission,  
15 have hereunto, set my hand and caused the official seal of this  
16 Commission to be affixed at the Capitol, in the City of  
17 Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2023.

18  
19 KIM BATTISTA  
INTERIM EXECUTIVE DIRECTOR

20 DISSENT: \_\_\_\_\_

21  
22 DISSENT: \_\_\_\_\_

23 EOA:LAC:elr/MAS  
24  
25  
26  
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28

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2 Docket No. WS-01303A-16-0145

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LINE NO.	CALCULATION OF OVERALL SIB REVENUE REQUIREMENT AND EFFICIENCY CREDIT	Arizona Wastewater District
1	Total Authorized Revenue Requirement, Per Decision No. 76162*, See Attached Schedules	\$32,680,370
2	SIB Revenue Cap %	5%
3	<b>SIB Revenue Cap ( line 1 x line 2)</b>	<b>\$1,634,018</b>
4	SIB Allowed Cost	\$4,642,015.91
5	Total Revenue Requirement, (with pro forma SIB investments)	\$33,095,043.34
6	SIB Revenue Requirement (line 5 minus line 1)	\$414,673.73
7	SIB Revenue Requirement Efficiency Credit	(20,733.69)
8	SIB True-Up Adjustment (from SIB Schedule B)	(99,816.08)
9	<b>SIB Authorized Revenue (line 6 plus line 7 plus line 8)</b>	<b>\$294,124</b>
10	Billing Unit Count as of 11/30/2022	74,151.00
11	SIB Per Billing Unit (line 9/line 10)	\$3.97
12	Annual Increase Monthly SIB Surcharge (line 11/12)	0.33
13	Total Monthly SIB Surcharge	\$0.33
14	SIB Efficiency Credit Per Billing Unit (Customer) (line 7/line 10)	(\$0.28)
15	Annual Increase to Monthly SIB Efficiency Credit (line 14/12)	(0.02)
16	Total Monthly SIB Efficiency Credit	(\$0.02)
17	Annual Increase to SIB Surcharge Net of SIB Efficiency Credit (line 11 + line 14)	\$3.69
18	<b>Monthly SIB Surcharge Net of SIB Efficiency Credit (line 13 + line 16)</b>	<b>\$0.31</b>

\*As adjusted by the Tax Cuts & Jobs Act of 2017 in Decision No. 76772

Line No.		2017 - 2020 Gravity Mains	2017 - 2020 Manholes	Total
1	SIB Eligible Investments	\$3,202,187	\$1,439,829	\$4,642,016
2	Plant Retirements	(3,483,139)	(458,783)	(3,941,922)
3	Net Plant (line 1 + line 2)	<u>(\$280,952)</u>	<u>\$981,046</u>	<u>\$700,094</u>
<b>ACCUMULATED DEPRECIATION</b>				
4	SIB Eligible Investments (lines 13 to 16 Column [A])	(\$64,044)	(\$28,797)	(\$92,840)
5	Plant Retirements	3,483,139	458,783	3,941,922
6	Net Accumulated Depreciation (line 4 + line 5)	<u>\$3,419,095</u>	<u>\$429,986</u>	<u>\$3,849,082</u>
7	Rate Base (line 3 + line 6)	\$3,138,143	\$1,411,032	\$4,549,176
8	Return on Investment (line 7 * ROR)	\$207,775	\$93,424	\$301,199
9	Income Required Line [8] * Conversion Factor	\$281,224	\$126,449	\$407,673
10	Depreciation Expense [lines 13 to line 15 - Column [C]]	(\$2,810)	\$9,810	\$7,001
11	Revenue Required (before Efficiency Credit)	278,414	136,260	414,674
12	Revenue Required (after Efficiency Credit)	<u>\$264,493</u>	<u>\$129,447</u>	<u>\$393,940</u>

Per Decision 76162		
ROR	6.62%	6.80%
ROE	9.70%	9.7%
Annual Depr Rate	NARUC	Description
2.00%	361	Gravity Mains
2.00%	363	Manholes
Conv Factor	1.3535	

		SIB Investments [A]	Plant Retirements [B]	Net [C]
13	Depreciation Expense by NARUC 1st Year			
14	Gravity Mains	\$32,022	(\$34,831)	(\$2,810)
15	Manholes	14,398	(4,588)	9,810
	Total	<u>\$46,420</u>	<u>(\$39,419)</u>	<u>\$7,001</u>

EPCOR Water Arizona Inc.  
 Arizona Wastewater District  
 Docket No. WS-01303A-16-0145  
 SIB TRUE-UP  
 As of November 30, 2022

Schedule B

Line No.	SIB FILING SEQUENCE				
	SIB YEAR 1*	SIB YEAR 1 and 2**	SIB YEAR 3*	SIB YEAR 4***	SIB YEAR 5*
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					

SIB Authorized Revenue (Sch A line 9)

\$0

\$185,880

\$0

\$471,081

\$294,124

Total SIB Surcharges Collections for Period

0

205,631

0

570,897

0

SIB True-Up Adjustment

\$0

(\$19,751)

\$0

(\$99,816)

\$294,124

\* SIB YEAR 1 is one year after effective date

\*\* SIB YEAR 1 and 2 is 2017 and 2018 combined

\*\*\* SIB YEAR 4 is 2019 and 2020 combined